

4 May 2023

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Submitted online: <https://www.aemc.gov.au/contact-us/lodge-submission>

Submission to EPR0091 - Review of the Retailer Reliability Obligation

Dear Alex Caroly

Delta Electricity (Delta) welcomes the opportunity to respond to the AEMC's review of the Retailer Reliability Obligation (RRO), although notes that the limited experience the market has had with the RRO makes it difficult for the AEMC to assess the effectiveness of its operation. While the AEMC notes it has extended the review period to allow it to consider learnings in relation to existing reliability instruments in place, the review structure does not afford participants this opportunity, particularly in relation to the T-1 reliability instrument in South Australia for January and February of 2024. Delta suggests the AEMC should consider how it could incorporate market participant feedback post this T-1 event.

Proposed assessment framework

Delta generally agrees with the assessment framework however it is unclear what is to be covered by the efficiency criteria. The consultation paper notes that the intent of this review is not to assess the overall efficiency of the RRO, however the efficiency criteria states that the regulatory framework should encourage innovation and efficient investment in the supply of energy services. This is much broader than just the operational aspects of the RRO. Delta suggests the efficiency criteria should be amended to reflect the limited scope that appears to be the AEMC intent with this review.

Delta notes the administrative burden of the RRO can be material and the review should also consider this aspect. Delta suggests this be included as a separate criterion or explicitly noted under simplicity and transparency. Delta has provided further detail on the regulatory burden of the RRO below, under compliance processes.

Process for T-3 and T-1 triggers

Delta supports changes and more discretion to allow the AER to withdraw a T-3 or T-1 reliability instrument. While Delta's preference would be to have a more thorough, efficient and effective RRO, there is a clear conservative approach evidenced through:

- the AEMC preference to extend the interim reliability measure (IRM); and
- soon to be changes allowing all Energy Ministers to trigger T-3 reliability instruments.



This is highlighted through six of the seven T-3 reliability instruments to date having been triggered through Ministerial discretion. While the South Australian Minister has been the only one to have this power to date, this power will soon be available to all Energy Ministers.

The RRO framework has continued down this path of making it easier for reliability events to be triggered, it should therefore also allow the withdrawal of reliability instruments when market conditions change to the point that the risk of the reliability event occurring reduces and the expected unserved energy no longer breaches the threshold (IRM or reliability standard, whichever is used).

This would ensure that only the most likely of reliability instruments are maintained, and would reduce the regulatory burden, risk, and uncertainty that is faced by market participants in the lead up to these events that are first identified more than three years out.

Liable entities

Potentially liable entities, whose aggregate load in a region may vary above and below 10 GWh across a 12-month period, will not know if they are liable until after net contract position day, when they can calculate their actual aggregate load. For a retailer with a relatively small annual aggregate load of about 10 GWh, the risk and cost of non-compliance by not having appropriate hedge contracts in place is disproportionately large compared to the reliability risk faced by the power system due to the relatively small portion of load that may not have been hedged.

Delta suggests that for retailers with smaller annual aggregate loads, for example less than 15 GWh (where the loss or gain of a large industrial customer could determine if this retailer is a liable entity), they should be allowed a grace-period of three months to procure appropriate hedge contracts after net contract position day. In effect, this would mean that a liable entity whose aggregate load is 10-15 GWh for the 12-month period prior to net contract position day would be compliant by having appropriate hedge contracts in place no later than three months after net contract position day.

This change would allow small liable entities to make more efficient decisions and reduce costs that would otherwise need to be recovered from customers.

Compliance process

While the RRO framework has been relatively untested to date, it is clear that the framework does not allow appropriate discretion and adjustments to be made by the AER when reliability circumstances change. This was most recently demonstrated through AEMO's updated 2022 ESOO which demonstrated that had this updated information been available in the original 2022 ESOO (published in August 2022), the T-1 reliability instrument in South Australia for 2024 would not have been requested by AEMO. Nonetheless, liable entities for South Australia will still be required to comply with the RRO framework. This includes producing net contract position reports and for many, acquiring independent approval of bespoke firmness methodology. This process can cost tens of thousands of dollars. It is therefore clear that a material amount of time, costs, and resources will be expended on complying with this forthcoming South Australian T-1 reliability instrument, which otherwise would not be the case if the AER had the discretion to cancel it.



Delta considers there may be other efficiencies in the compliance process identified once the T-1 reliability in South Australia in 2024 has passed and encourages the AEMC to consult with affected participants at this time before making a final report.

Other issues

Delta supports the AEC's position on the market liquidity obligation, in particular that semi-scheduled and/or non-scheduled generation should not be included as by its nature it does not provide firm capacity.

Delta does not see a reason to maintain the voluntary book build mechanism and supports its removal and does have strong views on questions in relation to the opt-in mechanism or qualifying contracts.

To discuss further please contact me at joel.aulbury@de.com.au.

Yours sincerely,

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Regulation and Strategy Manager